



A. JOSEPH DeNUCCI
AUDITOR

The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819

BOSTON, MASSACHUSETTS 02108

TEL. (617) 727-6200

No. 2000-0140-4C

**OFFICE OF THE STATE AUDITOR'S
REPORT ON EXAMINATION OF
INFORMATION TECHNOLOGY AND FINANCIAL-RELATED CONTROLS AT THE
MASSACHUSETTS OFFICE OF TRAVEL AND TOURISM**

July 1, 1998 through February 29, 2000

**OFFICIAL AUDIT
REPORT
MAY 30, 2000**

2000-0140-4C

May 30, 2000

Ms. Mary Jane McKenna, Executive Director
Massachusetts Office of Travel and Tourism
10 Park Plaza, Suite 4510
Boston, Massachusetts 02116

Dear Ms. McKenna:

We are presenting our audit results and recommendations for our integrated IT and financial-related audit of the Massachusetts Office of Travel and Tourism (MOTT). The audit, which was conducted from November 1, 1999 through March 31, 2000, was comprised of an examination of internal controls for IT operations and for selected financial areas. Our audit period covered the period July 1, 1998 through February 29, 2000.

The examination of IT-related general controls included physical security, environmental protection, hardware and software inventory, business continuity planning, and on-site and off-site storage of magnetic media. Our audit also encompassed an examination of monitoring controls over subsidized travel, travel and entertainment expenses, and accrual and use of frequent flyer miles, as well as the allocation of funds to the 13 Regional Tourist Councils, in accordance with Chapter 23A subsection 14 of the Massachusetts General Laws.

Our audit and recommendations are intended to help strengthen the Office's framework of internal controls. Although we found that most of the control objectives were adequate, the issues of monitoring controls over subsidized travel, travel and entertainment expenses, and frequent flyer miles needed to be strengthened. The report is intended for management's use in assessing controls within MOTT's internal control environment and in taking corrective action where needed.

We appreciate the courtesy and cooperation extended by you and your staff during the audit. Should you need additional information regarding this report, we would be pleased to provide it.

Sincerely,

A. Joseph DeNucci
Auditor of the Commonwealth

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY	2
AUDIT SUMMARY	5
AUDIT RESULTS:	7
1. Travel Subsidy Disclosure	7
2. Monitoring of Travel Expenses	10
3. Frequent Flyer Miles	14

INTRODUCTION

The Massachusetts Office of Travel and Tourism (MOTT) is organized under Chapter 23A § 13B of the Massachusetts General Laws and operates under the purview of the Department of Economic Development (DED). The Massachusetts Office of Travel and Tourism serves as the principal agency for promoting the recreational, cultural, historic, and scenic resources of the Commonwealth, in order to increase the desirability of the state for tourism, conventions, and recreational-related activities. The Massachusetts Office of Travel and Tourism provides informational, marketing, and technical assistance to public and private non-profit entities organized for similar promotional purposes, through various partnerships and the MOTT's website. The state appropriation for MOTT was \$21,351,666 for fiscal year 1999 and \$21,209,000 for fiscal year 2000.

The information technology operations at the Massachusetts Office for Travel and Tourism are supported by 44 microcomputers and a file server, configured in a local area network (LAN), located in the Massachusetts Transportation Building at 10 Park Plaza, Boston, Massachusetts. The file server runs Windows NT 4.0 and uses Microsoft SQL, version 7.0. The primary computer applications are the Fulfillment System and the Industry Data Base System. The Fulfillment System, which was developed by Noble Software Solutions and was installed in September 1999, tracks and enters view guide and brochure requests for MOTT. The Fulfillment System is considered the most essential system of MOTT because it disseminates much of MOTT's marketing information.

The Industry Database System, using Microsoft Access 97, was developed in-house during 1996, in conjunction with MOTT's domestic advertising agency. Information provided by this system drives and updates the MOTT web site with data concerning accommodations, attractions, and events in Massachusetts. The Microsoft Office 97 suite is utilized by staff members primarily for correspondence and documentation.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Scope

During the period of November 1, 1999 to March 31, 2000, we conducted an audit at the Massachusetts Office of Travel and Tourism (MOTT). Our audit, which covered the period July 1, 1998 to February 29, 2000, consisted of an examination of internal controls over selected information technology (IT) and financial-related functions. The scope of our examination of IT-related controls included physical security, environmental protection, hardware and software inventory, business continuity planning, and on-site and off-site storage of magnetic media. The scope of our financial-related audit work included evaluating the adequacy of MOTT's policies and procedures used for management and control of travel expenses, and the correctness of the allocation of funds to the 13 Regional Tourist Councils (RTCs), in accordance with Chapter 23A § 14 of the Massachusetts General Laws (MGL).

Audit Objectives

The primary objective of our audit was to determine whether adequate controls were in place and in effect for MOTT's IT processing environment and selected financial-related areas pertaining to travel expenses and the allocation of funds to the 13 RTCs.

With respect to IT-related controls, we sought to determine whether adequate general controls were in effect to support a properly-controlled processing environment. We determined whether adequate physical security and environmental protection were in effect to safeguard computer operations and IT-related assets.

Our objective with respect to hardware and software inventory was to determine whether IT-related assets were properly identified, recorded, and accounted for in the inventory records. Regarding system availability, we sought to determine whether business continuity plans would provide reasonable assurance that mission-critical and essential systems could be regained within an acceptable period of time should a disaster render processing inoperable. In conjunction with business continuity planning, we sought to determine whether backup procedures were being performed, and whether copies of backup magnetic media were stored in secure on-site and off-site locations.

With respect to financial-related areas, we sought to determine whether expenditures were authorized, properly documented, recorded, made in an economical manner, and were in compliance with the Department of Economic Development's policies and procedures and other

relevant regulations. In addition, we sought to determine whether MOTT's allocation of funds to the 13 RTCs for fiscal year 1999 and the first three months of fiscal year 2000, whether the allocation was in accordance with the requirements set forth under Chapter 23A § 14, M.G.L.

Audit Methodology

To determine the scope of the audit, we performed pre-audit survey work regarding MOTT's IT environment and certain financial operations. The pre-audit work included interviews with senior management; a review of prior audit reports and relevant policies, procedures, and internal control documentation; and observation of IT areas.

To obtain an understanding of agency activities and the internal control environment, our pre-audit work included a review of MOTT's mission, organizational structure, primary business functions, and policies and procedures. We assessed the strengths and weaknesses of the internal control system for selected IT and financial activities. Upon completion of pre-audit work, we determined the scope and objectives of the audit.

Through observation and interviews with relevant IT staff, we evaluated whether adequate physical security and environmental protection controls were in effect to ensure that information technology operations were being performed in a proper environment that would minimize risks to computer operations and safeguard IT-related assets. We inspected the IT and surrounding areas to determine whether locks were in place for physical security and reviewed the access list for combination locks and compared it with a copy of the employee list. To evaluate environmental protection, we reviewed related policies and procedures and then confirmed the existence of environmental controls over the file server with respect to temperature control, general housekeeping and cleanliness, as well as fire detection and suppression equipment.

To determine whether sufficient controls were in place over hardware and software inventory we obtained and reviewed applicable policies and procedures, evaluated the inventory list as to whether appropriate information was being captured and provided, and then tested certain items from the inventory list for location and tag numbers. With respect to software inventory, we reviewed the content of the list and determined whether MOTT had maintained copies of licenses for software products installed on MOTT's systems.

We interviewed MOTT management to determine whether there was an adequate disaster recovery and business continuity plan in place, whether it had been tested, and whether the criticality of application systems had been assessed. Through interviews, we reviewed internal controls and procedures pertaining to on-site and off-site storage. Although an on-site visit of the off-site facility was not performed, limited tests of the on-site facility were conducted.

For selected financial-related areas, we conducted interviews, reviewed relevant policies and procedures, and documented our understanding of controls over travel expenses and reimbursements, and the allocation of funds to the 13 RTCs.

To determine whether adequate controls were in effect over travel expenses, we reviewed policies and procedures regarding the authorization, approval, and recording of such expenditures. To determine whether travel expenses were authorized, approved, and were supported by proper documentation, we reviewed a judgmental sample of 100 transactions from travel expenses incurred during fiscal year 1999. For each transaction selected, we verified original documentation such as written approval, travel expense vouchers, receipts, and sales slips. To determine whether airline travel was economical, we obtained standard airline ticket costs for specific destinations and compared those costs to MOTT's airline travel expenditures. To determine whether the expenses were properly accounted for and recorded in accordance with the agency's travel policies and guidelines, we reviewed the postings of the travel expenses to the general ledger travel expense account. To determine whether MOTT was making use of the cost benefits to be derived from the accrual of frequent flyer miles, we reviewed policies and procedures regarding the accrual and use of frequent flyer miles and calculated the potential miles that could have been accrued for the 1999 fiscal year.

To determine whether MOTT had complied with 801 CMR 7.00 and Administration and Finance Bulletin No. 8. as they relate to the reporting of subsidized air travel and whether private parties had subsidized any air travel, we reviewed 100% of airline travel for fiscal year 1999 and the first seven months of fiscal year 2000, consisting of 92 travel authorization forms for MOTT employees. We then traced each authorization form to the payment vouchers of MOTT's travel agent or international public relations firm.

Regarding the allocation of funds to the 13 Regional Tourist Councils (RTC), we reviewed the distribution formula for the Regional Tourist Council grant program through the supporting documentation provided by the economic impact study, Department of Revenue room occupancy revenue information, grant applications, marketing plans of the councils, and other unique travel and marketing information. We also traced the quarterly payments for fiscal year 1999 and the first three months of fiscal year 2000 from Massachusetts Management Accounting and Reporting System (MMARS) reports and checked approvals, payment voucher numbers, amounts, check numbers, and grant applications.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and industry auditing practices.

AUDIT SUMMARY

Based upon our examination of internal controls at the Massachusetts Office of Travel and Tourism (MOTT), we found that controls in place would provide reasonable assurance that IT-related business and operational objectives would be met for the areas reviewed. However, we found that controls needed to be strengthened with regard to monitoring and evaluation of the identification of subsidized travel, accrual and use of frequent flier miles, and travel expense-related reimbursements. We further found that MOTT posted administrative fees or discounted ticket costs to MOTT's advertising account, rather than properly posting them to the out-of-state travel airfare account. These expenditures totaled \$12,795.

We found that internal controls in place, although not formally documented, provided reasonable assurance for physical security and environmental protection of MOTT's file server in the Boston office and security of IT resources in business office areas. We found the area in the main office housing the file server to be separate from the primary work place, keyed to lock, neat, clean, temperature controlled and equipped with fire detection and suppression devices. We recommend formally documenting physical security and environmental protection control policies and practices.

With respect to hardware and software inventories at MOTT, we found that controls and records provided reasonable assurance that all IT-related assets were adequately identified and properly tagged, and that recorded locations and tag numbers were correct for the items tested. The Office's formally documented policies and procedures were found to be appropriate for control over hardware and software inventory. We found that the Network Administrator maintained a record of software licenses for microcomputer and LAN-based software.

At the commencement of our audit, we found that MOTT had developed and documented an office-wide disaster recovery and business continuity strategy. From a process perspective, if followed, it appeared that the plan would provide reasonable assurance that mission-critical and essential systems could be regained within an acceptable period of time should automated processing be rendered inoperable. However, since the plan had not been tested or subjected to a formal walk-through to determine its viability, we recommend a formal review and assimilation tests be conducted in the near future. Subsequent to our formal exit on May 10, 2000, the auditee stated "with regard to the office-wide disaster recovery and business continuity strategy, we intend to conduct a formal review and assimilation test in the late fall, after the peak tourism season has ended." In this regard, we urge MOTT to perform a formal walkthrough of their business continuity plan before their peak season. With respect to backup of magnetic media, we

found controls to be adequate for on-site storage, but did not evaluate controls for the off-site storage facility.

With regard to financial-related areas, we determined that the distribution formula for the allocation of funds to the 13 Regional Tourist Councils (RTCs) involving the grant program was appropriately calculated and properly monitored. We also determined that the quarterly payments were adequately controlled for fiscal year 1999 and the first quarter of fiscal year 2000, as recorded by the Massachusetts Management Accounting and Reporting System (MMARS).

Although policies and procedures by the Department of Economic Development (DED) did exist for the reporting of subsidized travel, our audit revealed that, during the fiscal year 1999 and the first seven months of fiscal year 2000, senior managers had not disclosed subsidized travel benefits for trips to Europe. We estimated that subsidized travel benefits, consisting of airline ticket upgrades, totaled \$40,883 during this period. Failure to identify the subsidized benefits may result in the perception that a conflict of interest may exist among the state employees involved, an intermediate public relations agency that arranged the travel, and the airline that provided the travel.

Our review of MOTT's internal control process for travel expenses revealed that, although DED had provided MOTT with adequate procedural guidance, MOTT's monitoring and evaluating controls for travel-related expenses and reimbursements needed to be strengthened. Our review of payment vouchers and travel expenses during the period of July 1, 1998 through June 30, 1999 indicated 11 instances out of 100 reviewed where MOTT's travel policies and procedures were not adequately followed, documentation for travel reimbursements was unsubstantiated or otherwise inadequate, or travel expenditures may have been excessive. Over the period under review, the potential existed for unsubstantiated travel reimbursements, duplicate travel-related payments, and excessive expenses for travel.

We found that MOTT had policies regarding the use of frequent flyer miles, but procedures for monitoring and evaluating the accrual and use of these frequent flyer miles for state benefit did not formally exist. Although we found that the extent of travel conducted by some employees provided an opportunity to accrue sufficient miles for benefit for the Commonwealth, MOTT had not required that frequent flyer miles earned be used in exchange for airline tickets. We did not find documented evidence that MOTT had performed reviews of frequent flyer miles earned or available for use. We believe that reasonable efforts to use frequent flyer miles earned will enable MOTT to obtain no-cost airfares from time to time. Understandably, a mechanism needs to be established to track miles earned and to require their use when time and circumstances permit.

AUDIT RESULTS

1. Travel Subsidy Disclosure

Our audit found that during the fiscal year 1999 and the first seven months of fiscal year 2000, the Director of MOTT, the Deputy Director of International Marketing, and the Manager of European Marketing did not disclose subsidized travel benefits for airline upgrades on trips to and from Europe. Although Travel Authorization Forms (TAF) were completed for all trips indicating the cost of the airfares, the forms did not identify the subsidized value of the upgraded air tickets contrary to a formal Department of Economic Development (DED) policy and procedure requiring such disclosure. We estimated that the unreported subsidized travel benefit for this period totaled \$40,883. As a result of not properly reporting subsidized travel, the potential of a conflict of interest may exist between certain members of MOTT's management and third parties, because the individuals benefiting by the undisclosed subsidized travel may be in a position to influence future business relationships with the third parties, which included an intermediate public relations agency that arranged most of the travel.

The Massachusetts Office of Travel and Tourism had in place appropriate policies and procedures for use of travel authorization forms and subsidy disclosure, as promulgated by DED, its oversight agency. The DED also reinforced the policies and procedures, particularly those regarding subsidized travel, in a memorandum, dated December 24, 1996, which stated in part that the cost of all subsidized travel is to be determined, or estimated, and recorded on the "Travel Authorization Form." The memo stipulated the following:

If you are receiving a free plane ticket, the subsidy would be equal to the amount that your office would have to pay for a ticket with the same terms and conditions. If you are receiving a partial subsidy, the amount of the subsidy would be the difference between the amount that your office would have to pay for the ticket and the amount of the reduced fare.

We found that some MOTT managers, however, were not always adhering to the stated policy or following established procedures, possibly because of competing priorities or inattention. In addition, we found that adequate internal control procedures were not in place to monitor changes to travel authorization forms or completion of a TAF-1 form, based on a review of supporting documentation subsequent to the completion of a trip.

Based upon a review of documentation for trips to Europe during fiscal year 1999 and the first seven months of fiscal year 2000, our audit disclosed two instances where MOTT management received two fully subsidized tickets, and nine instances where, for either the charge of an administrative fee or for the cost of a discounted ticket, round trip flights to London were

arranged and upgraded tickets were obtained (Exhibit 1). The actual cost to MOTT, as reflected by the administrative fees or discounts, was in line with coach fares far below the established fares generally charged for business class travel. Provisions on the upgraded tickets allowed the MOTT employees to travel at the more expensive business-class level. An international public relations firm, which had a contract with MOTT, initially incurred the administrative fee or discounted purchase, which was subsequently reimbursed by MOTT in nine instances. Our concern is not a question of the actual expenditures, as the payments made by MOTT for airline travel in these instances generally reflected coach fares, but rather because of the upgrades received, the issue is the failure to identify the difference between the actual cost and the higher value of the upgraded ticket. Our estimate of \$40,883 for the subsidized value was derived by subtracting \$11,868 (the actual amount paid for the eleven flights) from \$52,751 (an estimated value of the potential price of these flights). We further found that MOTT posted administrative fees or discounted ticket costs to MOTT's advertising account, rather than properly posting them to the out-of-state travel airfare account. These expenditures totaled \$12,795 and were paid by MOTT.

Exhibit 1

ESTIMATED SUBSIDIZED AIRFARE NOT DISCLOSED ON TAF FORM OR TAF 1 FORM
FISCAL YEAR 1999 AND FIRST SEVEN MONTHS OF FISCAL YEAR 2000

TRAVEL DATES	DESTINATION	AIRLINE	AMT PAID	ESTIMATED VALUE
03/22/99-03/25/99	London	American	\$ 1,516.00	\$ 5,549.00
04/08/99-04/13/99	London	American	\$ 1,426.00	\$ 5,549.00
11/15/98-11/19/98	London	Virgin	\$ 00.00*	\$ 1,007.00*
02/28/99-03/02/99	London	American	\$ 793.00	\$ 5,549.00
11/15/98-11/23/98	London/Italy	American	\$ 849.00	\$ 5,712.00
06/28/99-06/30/99	London	American	\$ 1,542.00	\$ 5,549.00
06/28/99-06/30/99	London	American	\$ 1,542.00	\$ 5,549.00
11/14/99-11/18/99	London	American	\$ 1,400.00	\$ 5,549.00
11/14/99-11/18/99	London	American	\$ 1,400.00	\$ 5,549.00
11/14/99-11/18/99	London	American	\$ 1,400.00	\$ 5,549.00
01/23/00-01/27/00	London/Munich	Virgin	<u>\$ 00.00</u>	<u>\$ 1,640.00</u>
TOTAL			<u>\$ 11,868.00</u>	<u>\$ 52,751.00</u>
TOTAL AMOUNT OF ESTIMATED SUBSIDIZED AIRFARE NOT DISCLOSED				<u>\$40,883.00</u>

* Unsubstantiated Reimbursement

Through various inquiries and reviews of supporting documentation, the OSA could not determine whether a cost was incurred for this ticket. The Deputy Director of International Marketing submitted this item for reimbursement

The issue is not that MOTT managers took advantage of partially or fully subsidized travel, a permissible practice, but rather that the amounts of the subsidies received were not disclosed. The Travel Authorization Form clearly states the requirement of, and makes provision for, disclosure of privately subsidized travel. The Department of Economic Development communicated its expectations in this area in their guidance to DED agencies. The initial failure to disclose should have been detected through adequate internal control monitoring procedures that examine actual travel documentation to the authorization forms.

Overall, we concluded that DED exercised a reasonable level of control over MOTT's travel-related activities. However, because it was the responsibility of the Massachusetts Office of Travel and Tourism to adhere to DED policy and monitor its own activities in all areas of operation, we found that internal controls and monitoring at MOTT needed to be strengthened.

Recommendation:

To ensure that MOTT complies with reporting requirements concerning disclosure of subsidized travel, we recommend that management more diligently monitor information on TAF forms both prior to trips as well as subsequent to a trip's completion. Should subsidized travel benefits be obtained, disclosure of this information is essential to avoid the appearance of a conflict of interest in the future. Management and staff should also ensure that all information on Travel Authorization Forms is accurate and complete. We also recommend that MOTT, in conjunction with DED, automate its Travel Authorization Form so that all of the forms can be made available on-line for internal and independent subsequent review. We further recommend that amounts expended on travel be posted to the proper general ledger accounts.

Auditees Response:

MOTT's updated travel policies and procedures that we provided to the State Auditor's Office (SAO) on March 30, 2000 will not allow any of its international public relations contractors to procure any airline tickets for MOTT staff. In the instances where it may be more cost effective, it will be so disclosed. However, the airline tickets that may be purchased for any of MOTT's staff will be direct billed to MOTT and will be classified and paid under the proper BB subsidiary. MOTT's Executive Director as well as DED management will closely monitor the completed TAF forms to ensure that subsidies are properly disclosed on the form. 801 CMR 7.03 (3)(a), Legitimate Public Purpose, states the following:

"The goal of encouraging tourism or economic development in the Commonwealth may require out-of-state travel and overseas travel. When private entities agree to pay for State officials to participate in activities which

serve this public interest, travel may be authorized subject to the provisions of 801 CMR 7.00.”

As indicated in your draft report, the issue is not that MOTT staff took advantage of partially or fully subsidized travel (which is a permissible practice) but that the TAF form was not completed properly or that the amount of the subsidies received were not fully disclosed on the TAF form. MOTT’s updated travel procedures require a trip report which can also disclose any subsidies and/or upgrades in airline tickets that may have occurred subsequent to the filing of the original TAF form.

Auditor’s Reply

We commend the actions taken in initiating and implementing new policies requiring the proper disclosure of subsidized travel and the proper classification of travel expenses. Proper monitoring is obviously required to ensure compliance with established procedures including the use, if necessary, of TAF-1 forms subsequent to completion of business trips.

2. Monitoring of Travel Expenses

Our review of MOTT’s internal control process for travel and entertainment expenses revealed that, although DED had provided MOTT with adequate guidance, MOTT’s internal controls for monitoring and evaluating travel-related expenses and reimbursements needed to be strengthened. Our review of payment vouchers and travel expenses during the period of July 1, 1998 through June 30, 1999 indicated eleven instances where MOTT’s travel policies and procedures were not adhered to, supporting documentation for travel reimbursements was inadequate or unsubstantiated, or travel expenditures were excessive and uneconomical. As a result, the potential existed for inadequate substantiation of travel reimbursements, duplicate travel-related payments, and excessive expenses for travel.

Administration and Finance Administrative Bulletin No. 8, promulgated May 13, 1998, requires that “Travel must serve a legitimate public purpose in support of the agency’s mission and travel arrangements must be cost effective.” Additional record maintenance requirements are set forth in 801 CMR 7.0. Sound business practices indicate that, in order for business entities to operate economically, they should establish appropriate monitoring and evaluating procedures to control and minimize travel expenses.

Our review of approximately 100 payment vouchers and related documentation for travel expenses for the period July 1, 1998 to June 30, 1999 revealed the following instances where monitoring procedures at MOTT may have been inadequate: MOTT did not follow established policy regarding cost effectiveness in the purchase of five out-of-state airline tickets, cumulatively valued at \$5,970. In addition, we identified six payment vouchers for cumulative

travel expenses of \$4,361, which were insufficiently documented, unsubstantiated, or resulted in duplicate payment for travel expenses. Of the duplicate payments brought to MOTT's attention, four reimbursements totaling \$2,427 were made to MOTT prior to the completion of our fieldwork and one insufficiently documented voucher for reimbursement of \$1,007 was being reviewed. (See Exhibit 2 for additional information on these expenditures.)

Exhibit 2

Monitoring of Travel Expenses

<u>Date</u>	<u>Issue</u>	<u>Amount</u>	<u>Condition</u>	<u>Conclusion</u>
05/11/99	Travel expense, Boston/Miami	\$1,493	A MOTT employee flew from Boston to Miami and return	Had the employee traveled as other MOTT employees on either Delta Express or Metro Jet Airlines, the fares could have been as much as 87% lower
02/12/99	Travel expense, Boston/Miami	\$1,479	A MOTT employee flew from Boston to Miami and return	"
09/18/98	Travel expense, Boston/Miami	\$1,447	A MOTT employee flew from Boston to Miami and return	"
06/10/99	Travel expense, Boston/LA	\$1,351	A MOTT employee traveled Boston to LA and return, staying over Saturday night	Reservations were made six days in advance, however the agenda was known months in advance, which resulted in not being able to take advantage of a fare as much as 78% lower
11/17/98	Travel expense, Orlando/Boston	\$200	MOTT employee purchased a ticket from Orlando to Boston for \$200 when he had previously purchased a round trip ticket	Increase monitoring and detection controls are needed
		\$5,970		
02/12/99	Payment of ticket not used	\$1,339	Payment to travel agency for ticket not used	Auditors identified these overpayments and the vendors subsequently reimbursed MOTT.
09/29/99	Payment of ticket not used	\$163	Payment to travel agency for ticket not used	"
08/21/99	Duplicate payment of airline ticket	\$293	Duplicate payment of airline ticket	"
03/05/99	Conference meal paid twice	\$632	Conference meal paid twice	Increased monitoring and detection controls are needed
11/15/98	Unsubstantiated reimbursement	\$1,007	Unsubstantiated reimbursement for airline ticket	Increased monitoring and detection controls are needed
10/27/98	Insufficient documentation	\$927	Airline ticket purchased but could not identify the traveler	Increased monitoring and detection controls are needed
		\$4,361		

Our audit revealed that the primary cause of this weakness in internal control was that MOTT staff members were not consistently applying the necessary level of professional discernment in reviewing payment vouchers and supporting documentation. As a result, we found that, in the circumstances noted above, the Commonwealth may have incurred travel-related expenses that were excessive or less than cost effective.

Recommendation:

The Massachusetts Office of Travel and Tourism should ensure that staff members adhere to all relevant policies and procedures in making and carrying out travel plans. Further, MOTT management should identify all potential costs savings related to travel expenses, including airline ticket purchases, and should more stringently monitor and evaluate travel-related expenses and reimbursements, including supporting documentation such as original airline ticket purchases and boarding passes. In cases where duplicate payments or reimbursements have taken place, MOTT should fully review the circumstances and supporting documentation for possible referrals or investigative assistance. We also recommend that MOTT develop an automated database that could be used to help control and track travel-related expense information and associated authorizations. The database would also provide a history that would be useful in comparing future travel costs, and in planning and arranging travel agendas.

Auditees Response:

The results of your review in this area focused primarily during FY1999 (July 1, 1998 through June 30, 1999). New travel policies and procedures were issued for Fiscal Year 2000 and were strengthened and updated based upon your comments and recommendations throughout your on-site review.

MOTT's FY2000 travel policies and procedures that were in place prior to the commencement of the audit review in late October had required all out-of-state travel requests be submitted to DED for review and approval at least 10 days prior to the date of travel. With this amount time as well as the updated procedures that were implemented based on your recommendations during this review, the MOTT staff person would be able to purchase airline tickets and other travel arrangements in a more cost-effective manner.

MOTT's updated travel procedures were provided to the State Auditors Office for comments on March 30, 2000. These updated procedures required airline tickets and boarding passes to be attached to all invoices and requests for reimbursements. There will also be a master file maintained by MOTT staff which will contain the original travel authorization, justification for the trip, a trip number assigned to each trip, all airline invoices which will be reviewed centrally prior to processing for payment. A final trip report will also be submitted to DED with a copy to the master file. The trip report will be utilized to disclose any subsidy and/or upgraded ticket that may have occurred subsequent to the submission of the original TAF request for approval. This master file will be very helpful to management in reviewing, projecting, and planning for future travel arrangements. Information in the master file will be valuable in determining the benefit of the travel to MOTT's mission.

MOTT will explore the possibility of establishing an electronic TAF form for office-wide use.

In regard to the few unsubstantiated and duplicate payments that were noted, we expect MOTT's strengthened procedures will prevent future occurrences. The one remaining unsubstantiated payment will be handled by DED and MOTT management who will require that the individual provide additional documentation to support this expenditure. In the event that there is no additional documentation that is satisfactory to DED, the individual's check for reimbursement to the Commonwealth which is on hand will be deposited.

Auditor's Reply

We commend the actions taken at the conclusion of our field work to improve cost efficiency and monitoring procedures for travel expenses. We will examine compliance with your newly implemented control procedures at the time of our next review.

3. Frequent-Flyer Miles

Our review of internal controls regarding tracking and use of frequent-flyer miles disclosed little evidence that MOTT tracked or required the use of frequent flyer miles earned to obtain airline tickets for state travel. In addition, there was little evidence of monitoring and evaluating as to whether staff were accruing frequent flyer miles earned from state-related travel to enable MOTT to obtain cost-saving benefits. Although management had informed staff through the Department of Economic Development (DED) on November 21, 1996, that “frequent flyer miles, which are purchased with state funds may only be used for official state travel . . .”, we did not find a systematic method in place to track and identify frequent flyer mile balances available for state use. A memo from the Chief Financial Officer of DED, dated May 25, 1999, provided additional guidance to MOTT management: “Please advise your staff of the travel policy that all frequent flyer miles accrued during travel on behalf of the Commonwealth of Massachusetts belong to the state and **should be applied to and used only for future state business related travel.**” In addition, according to a document dated February 4, 2000, from the Chief Financial Officer of DED to MOTT staff, the point was emphasized: “reiterating that no employee should be benefiting individually/ personally for frequent miles for travel on state official business since the Commonwealth paid for it originally, this benefit should accrue to the Commonwealth.”

We recognize that according to airline policies only individuals and not organizations or governmental entities may accrue frequent flyer miles. Although there is no stated policy or regulation that state employees should establish frequent flyer mile accounts with airlines to accrue miles earned, good business practice would indicate that state entities should take advantage of this potential cost saving for the benefit of the taxpayers of the Commonwealth. To accomplish this, frequent flyer miles earned need to be tracked. Further, the process by which airline tickets are obtained should take into account whether frequent flyer mile balances are sufficient to be useful in obtaining future tickets.

Our review indicated that certain MOTT staff had taken 92 authorized airline trips during the fiscal year ended June 30, 1999. It is our understanding that, while the majority of this travel was undertaken under the Statewide Master Service Agreement, the Agreement does not address the issue of frequent flyer miles or preclude their accrual. Our analysis of the 92 trips taken during this period indicated a total mileage of approximately 318,000, traveled by 11 staff members, which could have been accrued as frequent flyer miles for the benefit of the Commonwealth.

Since frequent flyer mile accounts are held by individuals and would also have personal use recorded, we would not expect that MOTT to review an employee’s personal frequent flyer mile

account. On the other hand, we believe that reasonable efforts can be made to identify whether frequent flyer miles were earned through flight documentation (e.g., boarding passes or ticket stubs), track the miles earned by individual by airline used, and identify balances available that could be used to obtain airline tickets. With appropriate tracking, MOTT management could request that their employees apply for and use state-related frequent flyer accruals when the miles earned become sufficient to offset the cost of the airfare for that individual, or possibly their designee. Because there was no effort to do this, potential cost savings to the Commonwealth may have been forfeited. Further, because standard operations did not require the use of frequent flyer miles to obtain tickets and did not monitor miles earned, employees could be placed in a conflictive ethical situation where they could have been accepting and had available for use state-related frequent flyer miles for their own benefit, contrary to DED policy.

Recommendation:

We recommend that MOTT encourage employees to request and receive frequent flyer miles for travel incurred on behalf of the state and that appropriate mechanisms be established to provide reasonable assurance that accumulated balances of miles earned from state-related travel be available to obtain airline tickets. In that regard, we recommend that MOTT staff track airline travel and record and arrange for the use of frequent flyer miles accrued by individuals for the benefit of the state. We also recommend that MOTT, in conjunction with DED bring to the attention of the Executive Office for Administration and Finance (EOAF) and through the Human Resources Division (HRD) the need to establish a statewide policy that addresses the accrual, by individual employees, of frequent flyer miles for business-related travel made on behalf of the Commonwealth. Policies and procedures should be comprehensive, addressing all associated issues, such as those relating to transferring and terminating employees. In this regard, appropriate input should be sought from the State Ethics Commission and relevant collective bargaining units.

To help prevent potential personal use of frequent flyer miles accrued by an individual, we recommend that, if possible, each person performing out-of-state travel be required to sign a standard form, indicating agreement that any potential state-related frequent flyer miles accrued to their personal accounts will be made available for state use. In addition, each state-related traveler should be asked to agree to submit sufficient documentation to confirm the accrual of frequent flyer miles and the date(s) the flight(s) were taken (for example, combination of airline ticket copy or ticket stubs, and boarding passes if possible) along with any other documentation indicating miles traveled on behalf of the Commonwealth.

We further recommend that MOTT implement procedures to monitor the accrual and use of frequent flyer miles, and that a database be established to capture information such as individual name, travel date, destination, distance, and estimate of miles accrued per airline. Management at the Massachusetts Office of Travel and Tourism should help ensure that all available frequent flyer miles are obtained.

Auditee Response:

As indicated in MOTT's updated travel policies and procedures that were provided to the SAO on March 30, 2000, MOTT has updated its records to maintain the mileage incurred by employee, destination, and airline in the event that the Department can implement this recommendation. However, as we discussed previously and to which you agreed, we must seek the assistance of the

Executive Office of Administration and Finance, the Human Resources Division, the Office of Employee Relations, the State Ethics Commission, and the Office of the Comptroller for guidance in implementing this recommendation on a statewide basis. Furthermore, the various collective bargaining units may have issues that will have to be addressed with regard to this matter. This would also apply to state ethics and management regulations.

Furthermore, this issue is not just a MOTT matter. It is a statewide issue that requires consultation, review, and approval by all of the various oversight agencies such as those listed above. DED and MOTT will work with these agencies regarding this initiative.

Auditor's Reply

Although we feel the procedures you have initiated will be a catalyst for monitoring the accrual and possible benefits of use of frequent flier miles, state-wide policies could improve controls in this area. In the absence of such policies, agencies are required to implement control mechanisms to capture the potential benefits of the accrual of frequent flier miles.